

Markets, democracy and social capital

Nowotny, Thomas

Veröffentlichungsversion / Published Version

Zeitschriftenartikel / journal article

Empfohlene Zitierung / Suggested Citation:

Nowotny, T. (2002). Markets, democracy and social capital. *Österreichische Zeitschrift für Politikwissenschaft*, 31(2), 217-229. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-59983>

Nutzungsbedingungen:

Dieser Text wird unter einer CC BY-NC Lizenz (Namensnennung-Nicht-kommerziell) zur Verfügung gestellt. Nähere Auskünfte zu den CC-Lizenzen finden Sie hier:
<https://creativecommons.org/licenses/by-nc/4.0/deed.de>

Terms of use:

This document is made available under a CC BY-NC Licence (Attribution-NonCommercial). For more information see:
<https://creativecommons.org/licenses/by-nc/4.0>

Markets, Democracy and Social Capital

Entgegen seinen Versprechungen hat der Kommunismus wirtschaftliche Entwicklung und Modernisierung nicht beschleunigt. Die von ihm betroffenen Zentral- / Osteuropäischen Staaten sind in ihrer Entwicklung vielmehr hinter jenen Staaten zurückgeblieben, die vor 70 Jahren noch gleich arm wie sie waren, die sich aber inzwischen dem europäischen Durchschnitt angenähert haben. In der Transformationskrise nach 1990 ist diese Kluft sogar noch breiter geworden. Es gibt keinen Anhaltspunkt für die These, dass die große Dauer und Tiefe dieser Transformationskrise durch eine vorschnelle und zu vollständige Demokratisierung verursacht worden wäre. Im Gegenteil: jene Staaten mit den höchsten demokratischen Standards sind auch jene, die ihre Wirtschaft am wirksamsten umgestaltet haben. Erfolgreiche Demokratisierung und erfolgreiche Wirtschaftsreform scheinen also die selbe tieferliegende Ursache zu haben: funktionierende gemeinschaftliche Einrichtungen sind in beiden Bereichen unerlässlich. Gut funktionieren können solche Einrichtungen aber nur dann, wenn sie sich auf ausreichendes und passendes „Sozialkapital“ von wechselseitigem Vertrauen und Bereitschaft zur Zusammenarbeit stützen können. Die Zerstörung dieses Kapitals zählt zu den schädlichsten Erbstücken, die der Kommunismus hinterlassen hat. Je weiter entfernt ein ex-kommunistisches Land von den traditionellen Zentren der europäischen Modernisierung, desto drückender die Last dieses Erbes.

Introduction

The gap in wealth that today separates the countries of Central/Eastern Europe from those in the Western part of the continent is wider than it has ever been in history. Largely, this is due to the inefficiencies and distortions of the former Communist economic regime. But even after the demise Communism it has taken very long for economic growth to steady and accelerate. Overall, the process of “catching up” has been slower than expected (Kolodko 1999; Hochreiter 1994). These economic problems interlink with political ones. And in fact, they parallel one another. While it is true that democratic transition preceded economic transformation, it is also true that the least democratic and politically least liberal countries are also those that had done least to reform their economies. The track record of the countries of the region is very uneven. Differences between them too, are greater than ever.

It is argued that institutional deficiencies are the main cause of the problems both in the po-

litical and in the economic sphere (Havrylyshyn/Roden 1999). Not that Western-type institutions would not exist. They do. But the problem is that frequently these institutions fail to function properly (Nowotny 1998). There seems to be something inherent in societies itself, in their routines, norms, cultures that permits the proper working of institutions or, on the other side, condemns them to irrelevance and inefficiency.

The – certainly vague notion of “social capital” – is introduced to circumscribe some of the social relations and norms that have to underpin public political and economic institutions (Putnam 1993); and it is argued that it is the failure to amass social capital (like trust) around these public institutions that makes them function so very badly in some of the “transition countries”.

The Growing Gap

Since 1989/1990, one overarching vision has guided the transition countries of Central-East-

ern Europe. It was the vision to “re-join” Europe. The aim was to resemble as closely as possible the countries in the Western part of the continent; to become not only wealthy and economically efficient, but also solidly and reliably democratic. This called for a profound economic transformation, but also for the transition to, and the consolidation of democracy.

It was the prevailing view – also enshrined in a many international documents – that both of these aims would not only be mutually compatible, but that they would re-enforce one another. The faster and the more complete economic transformation and reform, the better the chances to become a fully developed democracy. And vice versa: the more successful democratic consolidation, the better also the chances to catch up economically with the wealthier parts of Europe.

This view was not shared universally. A few doubters maintained that there would be no precedent in history for countries having reached both goals at the same time (Balcerowicz 1995; Lin 1997). Those sceptics stipulated that one could, or should accord priority to just one of these tasks. In actual practice and in the course of history, one had either pushed for increased wealth¹ or for democratic reform. To pursue both of these goals with equal determination would be too complex an undertaking.

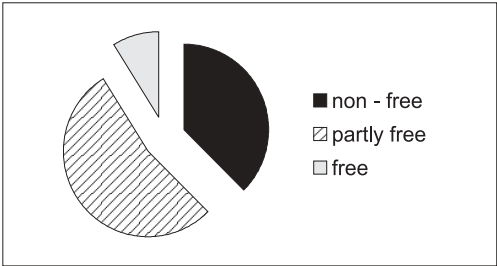
But is this indeed what the more recent experience in Central/Eastern Europe teaches us?

Let us start though with one more general observation. Looking around in today’s world, we find that the majority of very poor states is not democratic, whereas – without exception – all democracies are market economies and the very vast majority of them very wealthy at that.

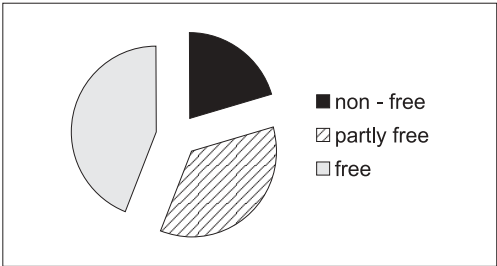
There is a clear correlation, therefore, between the degree of wealth, of “modernisation” and “marketisation” on the one hand, and the degree of democratisation and political liberty on the other.

But does such a correlation also hold true for countries that have been Communist? Is the political transition of the post Communist countries nothing but yet one other step in a secular, global process of modernisation that makes countries not only wealthier, but that transforms

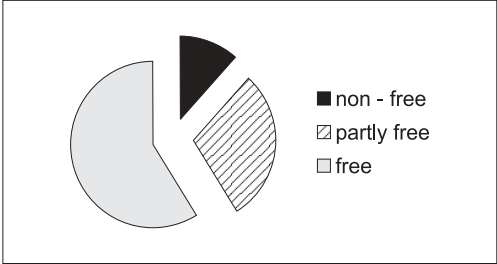
Table 1
Wealth and Democracy
Low Income Countries



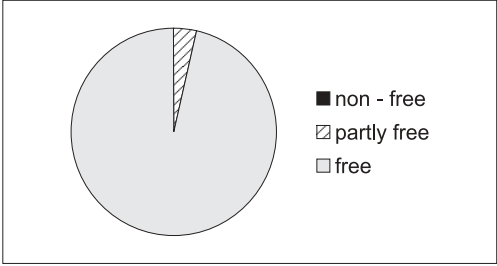
Lower Middle Income Countries



Upper Middle Income Countries



High Income Countries



Source: Freedom House 2000.

them – more or less inevitably – into democracies? Does the transformation of these formerly Communist countries into democracies conform to previous patterns of democratisation in other formerly non-democratic countries?

This question is not redundant because the so-called transition countries were – and still are – in a special position. Communism was historically unique. Experience in other parts of the world therefore could not provide an answer as to what would happen after the end of Communism. This is because the “modernisation” brought about by Communism did differ significantly from the process of modernisation as it occurred in other middle-income countries. Such basic differences might have become obscured by some appearances of outward similarity. Because in the Communist countries too there was:

- a shift from agricultural to industrial production
- accelerated urbanisation
- emergence of a broad, urban middle class
- high rate of literacy and a high quantitative and qualitative level of education
- plenty of other social services that were provided to the public
- important infrastructure projects
- greater equality in the distribution of wealth and income

All of the above developments characterise modernisation also in other parts of the world. But as has become evident by now, the process of modernisation induced by Communism in Central/Eastern Europe was different nonetheless. It was shallow. It brought a “modernisation” less complete than the one that occurred in the non Communist countries of Europe.

The level and growth of the GDP is a rather good indicator for the speed and depth of modernization. Some countries that have a high per capita GDP might not be very “modern” – especially if their wealth results but from the export of just a few raw materials. Inversely, some countries might benefit from a highly modern economy that employs much capital and that uses advanced technologies. Their civil society, their social norms and values, and their politi-

cal culture might nonetheless still reflect pre-modern times. By and large though, these are exceptions. By and large, the figures for the per capita GDP still provide a rather good gauge for the level of modernisation.

Using this gauge, we find that overall the modernization was retarded by Communism. Countries that were equally poor at the outset but had developed under a market system and (at least for some time) under democratic rule, are wealthier and thus more “modern” than countries which had to develop under a Communist regime.

The following Table 2 shows the per capita GDP of various European countries in 1934 and in 1992. The comparison is done in purchasing power parities and the figures show to what extent the wealth thus measured differed from the European average. As we can see, all formerly poor countries that chose a “capitalist way of development” were able to improve their relative position;² whereas the formerly poor countries that took the Communist path are all now further removed from the average now than they had been in 1934.

Table 2
Comparisons in PPP Income 1934 and 1992

Selected Communist and non-Communist
European Countries
(in 1990 USD, relative to the European average)

	1934	1992
Germany	1,2	1,25
France	1,11	1,16
Austria	0,71	1,11
Finland	0,83	0,95
Italy	0,81	1,05
Ireland	0,75	0,76
Spain	0,51	0,81
Turkey	0,32	0,29
Bulgaria	0,31	0,26
Czech/Slova.	0,72	0,44
Romania	0,48	0,31
Poland	0,48	0,31
Hungary	0,63	0,36
Yugoslavia	0,32	0,27

Source: Maddison 1995.

Running Parallel: Democratisation and Economic Reform

Clearly thus, Communism had set these countries on a different road of development, and the question is as to whether these differences are weighty enough to exempt the ex-Communist countries from the general rule; or whether, on the contrary, ex-Communist countries too, conform to the general pattern with a close correlation between the advance of political and civic freedom on one hand, and economic development and reform on the other.

According to the Table 3 shown below, they do conform to the general pattern. In the transition countries too, the consolidation of democracy and the development of a market economy are mutually compatible. We measure their economic reform with the “transition indicators” as they are published by the European Bank for Reconstruction and Development – EBRD in its annual “Transition Report”. This composite index reflects the advances in the reform of economic policies and institutions (like privatisation or liberalisation). We correlate that index with the Freedom House indicators we already used in Table 1. This too is a composite index and

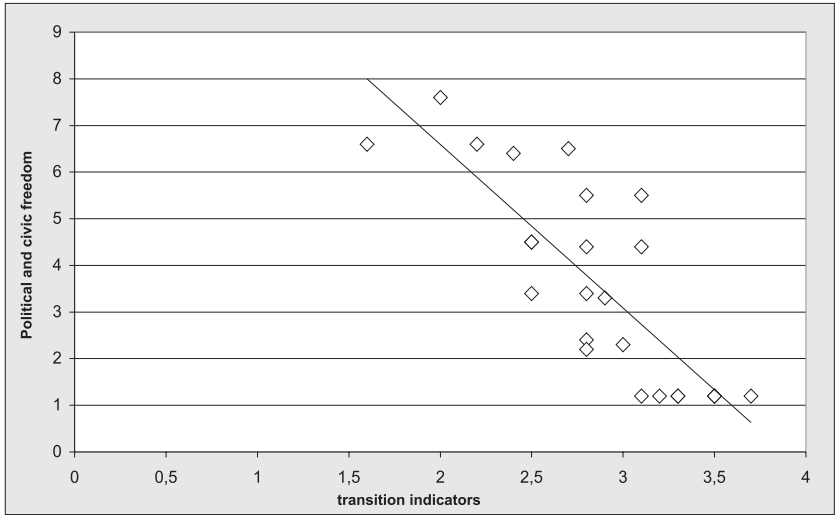
measures the degree of political and civic freedom with the best score being 1, and the worst a 8. Obviously, there is a close correlation between the two indices. Those most advanced in economic reform are also the ones most advanced in the consolidation of democracy.

Correlations are just that. They show that two phenomena occur together. But we want to know more. We want to know what causes what. Does a favourable economic development promote democracy; so that one should concentrate on this economic development, being confident that it would be followed later on and more or less automatically by progress on the way towards democracy? Or would it be the other way round? Would freedom and democracy be the necessary base, the essential precondition for well functioning markets? And would these markets become established and consolidated more or less automatically once a democratic polity has become established?

Countless arguments are offered to substantiate either the claim for the priority of democracy or for the priority of markets. Just to name a few:

- 1. Markets build and sustain the civil society that is the base for democracy.

Table 3
Correlation Between the EBRD Transition Indicators and Political/Civic Freedom



Source: Freedom House 2000; EBRD 2000.

2. Markets teach an “each for himself” and thus destroy the foundation of reciprocity and communality necessary for democracy.
3. Markets accentuate differences in income and status that are inimical to democracy.
4. Democracy implies so strong a quest for equality that it impedes the development of efficient markets.

And so on. As mentioned the list of possible arguments is as long as the duration of the debate. But how does the public in the transition countries themselves view the issue? According to surveys it judges the results of democratisation also in light of its economic status (Hayo 1999). These surveys show that public support for democratic governance becomes linked, in the end, to the perception of one’s own fate on the roller coaster of economic transition.

The better in a given post-Communist country the relative economic situation of the individual household, the higher the support for democracy. This does not imply that households with a bad economic situation cannot be democratic. But it shows that in the last few years rising levels of wealth have produced higher levels of support for democracy, while on the other hand a deteriorating economy has negatively affected the support for democracy.

Table 4
Relative Wealth and Support for Democracy
Percentage of Households Supporting Democracy
(in households of different economic comfort; as measured by the answer to the question: how satisfied are you with the situation of your household today)

	Satisfactory Household	Very Satisfactory Household
Poland	74	89
Slovakia	62	80
Croatia	34	70
Slovenia	56	64
Czech Rep	67	61
Hungary	70	57
Romania	76	57
Bulgaria	71	50
Belarus	58	42
Ukraine	33	38

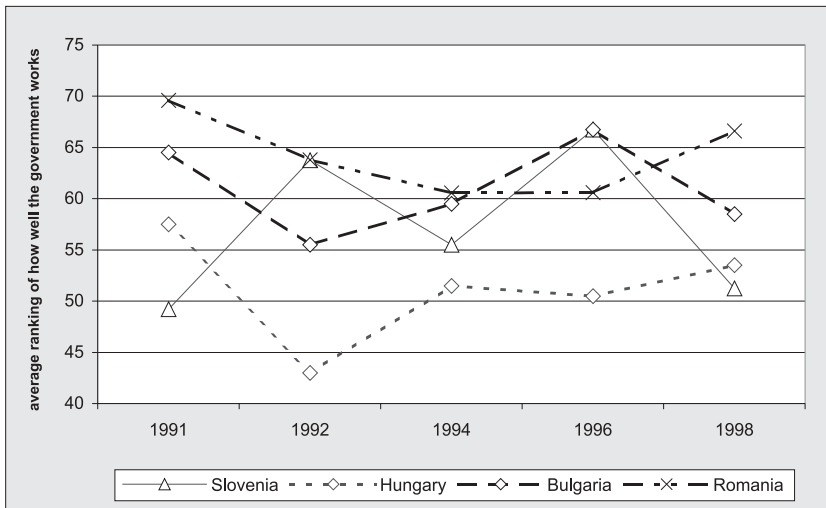
Source: Härpfer, Christian/Richard Rose, Principal Investigators, New Democracies Barometer V, 1998.

The above table shows that support for democracy is stronger in wealthier households; and stronger in wealthier transition countries. But this relationship is neither automatic nor universal. For in surveys done several years ago, the political reaction to economic misery or to economic well-being is far less pronounced (Rose/Mishler 1996). Older editions of the “New Democracies Barometer” show that for many years after 1989, the political reactions were not that closely linked to the perceived efficiency and justice of the economic system. As it seems, democracy was appreciated as such (Nowotny 1994), irrespective of whether it was associated with wealth or misery (Härpfer/Rose 1994). Very often parties succeeded at the polls even when promising nothing but sweat and tears. Whereas some parties were voted out of office who had promised nothing but ease and comfort for everyone. Evidently, voters were not just motivated by the all exclusive goal of a higher income, or by the prospect of other material benefits.

In a sense, democracy is not just a simple arrangement and a simple status, but an ideal and a permanent process. In that sense, even long established democracies are far from perfect. In many transition countries the distance to the ideal is wider still. Nonetheless, the satisfaction with the democratic political regime depends less on the distance to such an abstract ideal. It depends much more on the distance to the past. In countries like Bulgaria or Romania, the preceding Communist regime had been ruthlessly totalitarian and had crushed all vestiges of civil society. In view of this past, Bulgarians and Romanians are rather satisfied with the working of their democracy. In view of what they experienced in the past, they appreciate the present political system, though it is less perfect than that of some of the more Western transition countries, and though it has been associated with substantial economic hardship. This attitude is different in countries in which Communism had been more benign – as it had been in the end in Hungary or Slovenia. In these countries people are not that certain that their present political system is that much better than the previous one.

Table 5

Satisfaction with Democracy in Bulgaria, Romania, Hungary and Slovenia
(attitudes to the current political system)



Source: Härpfer/Rose 1998.

Nonetheless, in the very long run and after long lasting economic hardship, a political party that supports a government will lose support and voters as this party becomes identified with sheer hopelessness. In the long run, a very inferior economic performance will even affect the political system as such as it then comes to be seen as unjust and illegitimate. It is therefore not surprising that eleven years after the demise of Communism and with the grave deficiencies of Communism slowly slipping from the general consciousness, economic performance has started to impact more strongly on attitudes towards democratic governance. As demonstrated in Table 4, the relation has become a closer one: those better off tend to support more strongly a democratic governance.

If these surveys provide us but with an other set of correlations, they nonetheless also give at least a hint of an answer to our basic question as to what come first and as to what causes what: in the countries of Central/Eastern Europe, citizens are generally more satisfied with the political regime, and less satisfied with the economic one. This would not be the case were efficient markets and rising wealth essential for the establishment of democracy. Because the

majority of these countries has not become wealthier. Only four of them – Hungary, Poland, Slovakia and Slovenia – have managed to reach the level of wealth that was theirs at the eve of the Communist era. And even in these countries, a sharp rise in inequality has excluded a large part of the population from profiting from the new riches.

We can throw some further light upon the relationship between democratic consolidation and economic transition by comparing the recent economic and political developments in the CIS (that is the successor states of the Soviet Union minus the Baltic Republics) with those in other transition countries.

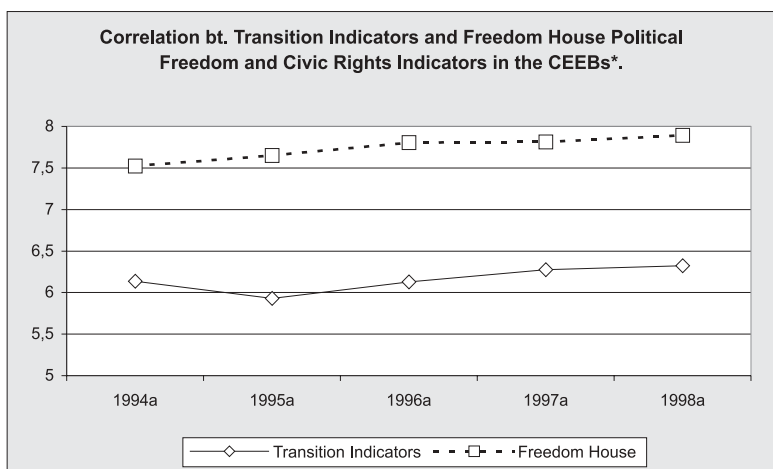
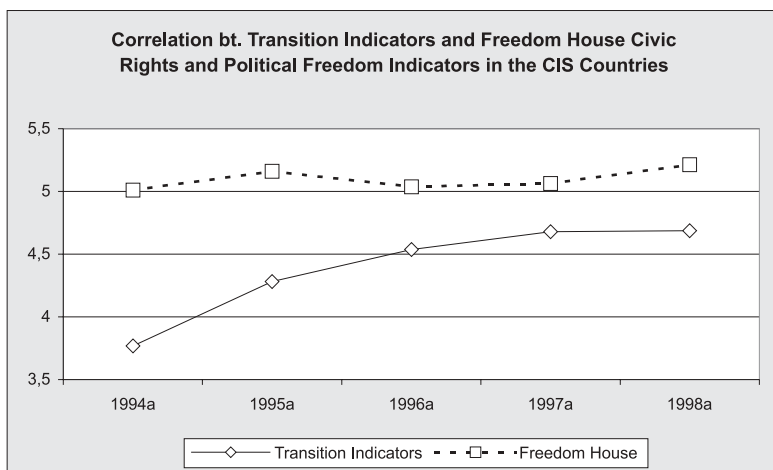
These charts (Tables 6 and 7) show that in both groups of countries, democratic reforms precede economic ones. The ready explanation is that the formal institutions of democracy can be established quite rapidly, but not so those institutions – like entrepreneurship and private property – that are essential for the functioning of a market economy (Stiglitz 1999).

But both economic reform and democratic consolidation progressed more slowly in the CIS countries (Zakaria 1997). There is yet an other difference between the CIS countries and the

Tables 6 and 7

Advance in Economic Reform and in Civic and Political Rights

(a comparison of CIS countries with other transition countries)



Source: Freedom House 2000; EBRD 2000 (for practical purposes, the EBRD transition indicator – that originally has 5 as its maximum and optimal number, has been translated into a 1 to 10 scale. On the other hand, the Freedom House indicator has been reversed with 10 being the optimal and 1 the worst mark.

* CEEBS stands for Centre East European and Baltic states.

transition countries of Central/Eastern Europe. In the latter, democratic transition was quite complete, with democratic institutions replacing the Communist ones fully and soon. This faster democratic transition has not imperilled or slowed their economic transformation. And one might rightfully ask, whether, on the contrary, it had not been accelerated by a more vivid democracy.

What Causes behind the Difficulties?

This close match of developments in the political and in the economic realm can not be merely accidental and one is thus led to assume that developments in both spheres are the result of the same underlying causes.

One of these causes is the historic legacy. Obviously, the difficulties on the way towards

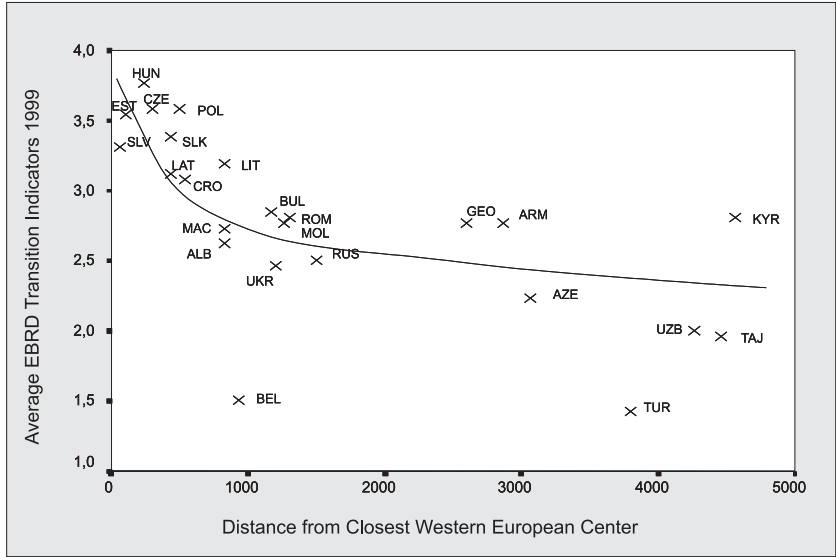
democracy and markets also reflect the heritage of pre-Communist times. Countries or regions that had always been remote from traditional centres of modernisation still continue to suffer from this disadvantage and this at a time when low transportation costs would seem to have made irrelevant the geographic location of a country.

Countries and regions modernise at an uneven speed. Some pull ahead, some are left behind. Some improve their relative rank and some fall behind in relative rank. But such changes are usually very slow. Generally, those ahead stay ahead for quite some time. Countries that have lagged far behind manage but rarely to move up into the group of those that are most advanced (Galbraith 1964). In this context, geography becomes relevant. Countries geographically close to others who are already more advanced, have themselves a better chance to pull ahead too.

Many of the transition countries, however, could not profit from such a fortunate geographic location. For centuries they have been surrounded by other, also less “modern” countries. And they continue to suffer from that fact even today. The farther removed from the historic centres of modernisation (located in Europe somewhere in the triangle between the Rhine Valley, Northern France and Southern England³), the further behind even now in the reform and transformation of their economy.

This historic cleavage, this geographic disadvantage has now been accentuated by Communism. As we have seen in Table 1, Communism has pushed the countries back below the level they otherwise would have attained, had they also developed under a democratic regime and as market economies. Evidently, this noxious effect has been deeper where Communism had lasted longest – namely in the countries that had been part of the former Soviet Union.

Table 8
Distance from Western European Centres of Early Modernisation and Progress in Economic Reform



Source: Sachs1997. This paper is based upon a complex, multifactor analysis and investigates the “weight” of several variables that have been used to explain the wide and growing divergence in the economic performance of the transition countries. Sachs finds that *all* such factors pale into near total insignificance against the sole factor of “geographic location” (which he measures not just by the simple physical distance from the “West”, but by using a “gravity model” that multiplies this physical distance by the relative economic weight of each country or region.

Communism has also aggravated one other historic burden. It has slowed and complicated state- and nation building (Gärtner, 1995; Gellner 1991). At the beginning of the 19th Century, just four states existed in the space defined by a quadrangle formed by the Western-most, and the Eastern-most end of the Baltic Sea and by the Western-most and Eastern-most end the Adriatic sea respectively.⁴ These states or empires – the Ottoman, the Austro Hungarian, the German, and the Russian/Soviet, dissolved one after the other. Now the same geographic space is filled by no less than 23 states. As it seems, these centrifugal forces are still powerful. Since 1990 not only the Soviet Union has broken up, but with Czechoslovakia and Yugoslavia two more other multi-ethnic states. In the latter case of Yugoslavia, splintering might continue even further if no longer restrained by international, armed intervention.

The process of process of state and nation building thus is still very young in the region. Not in all cases has it been complete and/or successful. At first sight, this should surprise, for Communism was identified with the notion and need of a strong state. It also saw as its mission to transcend and obliterate the divisive forces of nationalism, to consolidate states and to lower ethnic tensions as they had always had existed in the region. In its final effect and in this realm too, Communism had produced exactly the opposite of what it pretended to provide. In Western Europe multi-ethnic states like Spain or Belgium could until now manage and contain some rather virulent ethnic tensions. This has not been the case in the realm of former Communism. Here, on occasions, even international borders seem less certain and permanent than in the Western part of the continent. The prospects of escalating inter-ethnic tensions continue to haunt a number of Central/Eastern European countries.

The newness of states implies that their institutions and administrations are young too. As a consequence, rules are untested and the civil service without great routine and experience.⁵ This disadvantage too, was aggravated by Communism. Among the Communist regimes and countries, the actual practice and the actual func-

tioning of public institutions differed much more widely than generally assumed. What all of these administrations shared nonetheless was a lack of public acceptance and legitimacy.⁶ This is nicely expressed in the adage that “everybody knew that those in charge of the public institutions lied; and everybody knew that those in charge of public institutions knew that the population knew that they lied”. The population thus did not “own” these institutions. These were perceived as not serving the interest of the population, but as serving the interest of those in power. This leads us back to the general question as to why in so many of the transition countries public institutions continue to function so badly, and as to why this default is the more serious the further to the East one moves.

As we can not but fail to realise, eleven years after the onset of transition, the economic transformation remains incomplete and threatened by recurrent crises. Democracy is still not fully consolidated if one implies that this would require the political structures to have become as stable as those in Western Europe. This outcome is not the one predicted by the so called “transitologists” who had taken their cues from the earlier switches from non democratic to democratic regimes as they had occurred in Latin America and Southern Europe (Huntington 1992; Linz/Stepan 1996). Based on such precedence, they had predicted that the necessary changes would have become completed in a much shorter period of time (Müller 1996). At the outset therefore – and for quite some time thereafter – expectations for and in Central/Eastern Europe had been conditioned by these predictions of “transitologists”. We should thus establish how and why they erred. For erred they have not only in predicting a relatively short phase of transition and consolidation; but also in describing the mechanism of transition and the consequences of various scenarios of transition.

They predicted, for instance, widely differing outcomes for a “pacted transition” on one side, with the outgoing old and the incoming new elites negotiating the change-over; and, on the other side, a transition that occurred as a consequence of a simple collapse of the old re-

gime (Schmitter 1994; Huntington 1992). These distinctions had some explanatory power. But it was a limited one which can longer provide convincing evidence on the reasons for the difference that exist nowadays between the various countries of Central/Eastern Europe. In Poland and Hungary for instance, transition was “pacted”. These two countries now closely resemble the Czech Republic were this was not the case and where the old regime had simply collapsed. But there are vast differences between the Czech Republic and Romania, notwithstanding the fact that in Romania too, the old regime had disappeared through a collapse.

“Social Capital”

So why this failure of “transitology”? The best answer seems to be that Communism simply could not be compared to any of the non-democratic regimes in Latin America or Southern Europe. While dictators in Southern Europe and Latin America had added some etatist or corporatist elements and a large quantity of autarky, the economic systems had remained basically capitalist nonetheless. Of course this was not the case under Communist regimes with their centrally planned economies and their state ownership of the means of production. Thus not only the political systems, but the economic systems too were subject to a wholesale change after 1989 (Beyme 1996). This double burden has certainly complicated and prolonged the change-over.

A second and equally important difference to other transitions to democracy arises from the fact that under Communism, the countries of Central/Eastern Europe had passed through a phase of totalitarian rule at least for some time. Contrary to the predictions of Jean Kirkpatrick (1982), this has not prevented them from changing and becoming “post-totalitarian”. But the phase of totalitarian governance had nonetheless deep effects upon these societies. This heritage seems to be one of the main causes of the uneven and frequently very inferior performance of public, economic and political institutions. For clearly, these institutions function least well were the weight

of totalitarianism has lasted the longest – as for instance in the CIS – or where it was the heaviest – as in Albania, Romania or Bulgaria.

In order to be effective, institutions must be trusted. People must be ready and willing to use them and perceive of them as facilitating that sort of co-operation modern states and modern economies can not do without (Fukuyama 1995). But it is exactly this readiness to co – operate even with anonymous partners and through public institutions; it is exactly this trust in public institutions; it is this essential “social capital” that has been destroyed by Communism (Rose 1997); and that had been destroyed especially in the totalitarian phase of Communism. Citizens became reduced to their private sphere and took distance from public institutions. These institutions were perceived as sham; as not theirs. They were not seen to serve the interest of the common Mr Average.

Table 9
Trust in Public Political and Economic Institutions

question: do you trust the *justice* system;
answer in percentages

	a great deal	quite a lot	not very much
France	5,4	40,9	34,3
Germany	9,0	38,1	39,0
Austria	15,0	53,1	27,4
CEECs	7,4	23,7	44,1

question: do you trust the *police*;
answer in percentages

	a great deal	quite a lot	not very much
France	13,1	53,8	22,6
Germany	9,5	61,6	25,2
Austria	21,6	53,6	21,0
CEECs	6,8	33,6	43,0

Source: Europe value studies 1999; for 14 CEECs: the non weighted average.

As the above table shows, this damage caused by Communism has not been undone in the meantime (Plasser/Przibersky 1998). The distrust in anything public persists; and those po-

litical institutions are least trusted which like the government, civil servants or political parties are at the same time the most essential ones. Surprisingly, private enterprise does not fare much better.

Trust is an essential part of what has been termed “*social capital*” (Coleman 1989). The whole notion and definition of “*social capital*” is hotly debated; as is the issue whether it increases, remains constant or becomes depleted in late capitalist societies.⁷ But it is difficult to deny that a whole complex stock of attitudes, expectations, traditions and moral norms does indeed underpin our capacity to work together in and through public institutions. This capacity depends on how intensely people relate to one another; on what social and other distances such relations cover; it depends on the nature and purpose of such relationships; and it depends upon whether such relations cluster around public institutions.

Not all types of “*social capital*” are benign in their effect (Härpfer/Wallace 2000). As mentioned, some types of social capital are essential for the good functioning of institutions. But, on the other hand, a certain stock of social relations might have come into existence that are partly the cause and partly the result of a failure of public institutions. This holds true, for instance, for the social networks underpinning criminal or black market activities.

Decisive in the further political and economic development is therefore not just the *volume* of social capital that existed at the end of the communist era; but also the *type and quality* of this social capital. In some of the countries, Communism had reduced “*social capital*” or it had transformed it to a degree that prevented institutions from functioning properly. That failure has very negative long term consequences. As many other social or economic developments, transition too can be perceived as being a learning process; and thus a path determined and cumulative process. Once the process has started to run in a certain direction, it feeds upon itself and becomes difficult to reverse.

Lacking the motive and reason to trust public institutions, citizens in some of the transition countries skirted them and in doing so set in

motion a spiral of negative feed-back that resulted in even greater distrust. Distrusted institutions are, of course, less efficient. And this lack of efficiency then lowers the already low level of trust they enjoy; and so on. This feed-back loop thus lowers expectations vested in institutions and thus weakens the legitimacy, the efficiency and the support for such institutions.

It is the absence of an other feed-back loop that also impairs the legitimacy and efficiency of public institutions in the Communist and post-Communist era. Under Communism, societies and the polity were organised top-down. Institutions were not dependent on their clients; enterprises not upon their customers; politicians not on voters. Being not dependent upon those they pretend to serve, institutions are under no constraint to adapt and learn. Slowly, they grew distant to reality and thus became dysfunctional, whereas their clients were thrown back upon themselves. Instead of building social capital around such institutions, they build it around relatives and friends; or in the counter world of criminal or black market activity.

These are no iron clad laws, but mere possibilities and probabilities. The actual course of events will – of course – also depend on political leadership and on political choices. Even “*path-determination*” still leaves room for them. Developments in, for instance, Bulgaria and Romania have shown that a country can travel upon such a slippery path up to a point where, in a general crisis, the cards have to be dealt again; and when a new beginning becomes possible. Unlike physical processes, political ones still leave ample room for value judgement and decisions.

But still, the destruction of the habit, of the willingness and the capacity to trust – this wholesale destruction of social capital has to be counted among the worst, the most pernicious, but also among the most enduring legacies of Communism.

Conclusions

There are no mono-causal explanations for the difficulties encountered by the countries of Cen-

tral/Eastern Europe on the path of democratic consolidation and on the path of economic reform. But it is certain that these countries have fallen further back in comparison to the countries of Western Europe; and it is certain that this must be due mainly to Communism and to its social, cultural, political and economic legacy. The most pernicious part of this legacy is an uneven and frequently inferior actual functioning of public institutions. This, on its turn, is due to these institutions not having gained sufficient trust and other social support. Instead of social capital that would have become amassed around these public institutions and that would support them, an other type of social capital has been accumulated. It consists of informal relations among closely connected persons and supports the alternative to the public world: namely the grey economy, criminal activities and, in politics, clientelism. Such negative processes are path determined and thus cumulative. It is difficult – though not impossible – to reverse them.

NOTES

- 1 In Western Europe itself, but also in East Asia, democratisation followed economic development which had created a middle class that many believe to be a pre-condition and necessary base for democratic governance.
- 2 If one excepts Turkey whose position had deteriorated – but only slightly so.
- 3 With some tongue in cheek some propose the centre of this centre to be Brussels.
- 4 if one excepts the mini – state of Montenegro which had been independent since the Middle Ages
- 5 This is one of the reasons why the CEECs could not follow an “Asian way” of “development capitalism” as this mode of modernisation depends upon powerful and efficient bureaucracies (Stiglitz 1999)
- 6 The legitimacy and effectiveness of the official administration was also weakened by the existence of a double chain of command: one provided by the official administrative institutions; and the other, often the more effective one, provided by the different units of the Communist Party.
- 7 Very likely though, it makes positive, and at that a strongly positive contribution to economic development (Knack/Keefer 1997).

REFERENCES AND SELECTED BIBLIOGRAPHY

- Balcerowicz, Lezek* (1995). *Socialism, Capitalism, Transformation*, New York.
- Beyme, Klaus* (1996). *Transition to Democracy in Eastern Europe*, London.
- Coleman, James* (1989). Social Capital in the Creation of Human Capital, *American Journal of Sociology*, 94 /1988/ 89 supplement, 94–120.
- Csaba, Laszlo* (1995). *Capitalist Revolution in Eastern Europe: a Contribution to the Economic Theory of Systemic Change*, Brookfield.
- De Melo, Martha/Cevdet Denizet/Alan Gelb* (1995). *From Plan to Market; Patterns of Transition*. World Bank.
- Diamond, Larry* (1997). The End of the Third Wave and the Global Future of Democracy, in: *Journal of Democracy*, 7 /3 July 1997.
- EBRD*, 2001, annual (since 1994) “Transition Report” (the latest: November 2001), London.
- Fidrmuc, Jarko* (1999). Economics of Voting in Post Communist Countries, Ms., J.Fidrmuc@KUB.NL, January 1999.
- Freedom House* (2000). *The Annual Survey of Political Rights and Civil Liberties 1999–2000*, New York.
- Freeman, John/Jude Hays/Helmut Stix* (1999). *Democracy and Markets: The Case of Exchange Rates*, Working Paper 39, OENB, Wien.
- Friedheim, Daniel* (1996). Bringing Society Back into Democratic Transition Theory, in: *East European Politics and Societies*, 7(3), 482–512.
- Fukuyama, Francis* (1995). *Trust: the Social Virtues and the Creation of Prosperity*, New York.
- Gärtner, Heinz* (1995). *Nation and Security in Central Europe-Democratic States without Nations*, ÖIIP (working paper), Laxenburg.
- Galbraith, John Kenneth* (1964). *Economic Development in Perspective*, Cambridge, Mass.
- Gellner, Ernest* (1991). Nationalism and Politics in Eastern Europe, in: *New Left Review* 189, Sept 1991, 127–134.
- Hayo, Bernd* (1999). Micro and Macro Determinants of Public Support for Market Reforms in Eastern Europe, *Zentrum für Europäische Integrationsforschung Bonn*, working paper 25, Bonn.
- Härpfer, Christian/Claire Wallace* (2000). Social Capital and Economic Performance, Ms., February 2000, haerpfer@ihs.ac.at, Wien.
- Härpfer, Christian/Richard Rose* (1994). Mass Response to Transformation in Post Communist Societies, in: *Europe-Asia Studies*, 46(1), 3–28.
- Havrylyshyn, Oleh/Ron van Roden* (1999). Institutions Matter in Transition; but so do Politics, paper at the conference on transition economies, Dubrovnik, June 1999.
- Hochreiter, Eduard* (Hg.) (1994). *Prospects for Growth in Eastern Europe*, working paper 15, ÖNB, April 1994, Wien.
- Huntington, Samuel* (1992). How Countries Democratise, in: *Political Science Quarterly*, 106(4), 1992, 578–616.

- Kirkpatrick*, Jean (1982). *Dictatorship and Double Standards*, New York.
- Knack*, Steve/Philip *Keefe* (1997). Does Social Capital Have an Economic Pay-Off? A Cross-Country Investigation, in: *Quarterly Journal of Economics*, 112, 1251–1288.
- Kolodko*, Grzegorz (1999). Ten Years of Post Socialist Transition: the Lessons for Policy Reforms, paper at the conference on transition economies, Dubrovnik 1999.
- Lin Justin*, Yifu (1997). Reform and Development. Lessons from Transitional Economies in East Asia, paper in the symposium in memory of Michael Bruno, Jerusalem, Nov. 1997.
- Linz*, Juan/Alfred *Stepan* (1996). Transition and Consolidation; Southern Europe, South America and Post Communist Europe, Baltimore.
- Maddison*, Angus (1995). *Monitoring the World Economy*, OECD, Paris.
- Mueller*, John (1996). Democracy, Capitalism and the End of Transition, in Michael *Mandelbaum* (Hg.): *Post-Communism; Four Perspectives*, a Council on Foreign Relations Handbook, New York, 102–167.
- Nowotny*, Thomas (1998). Central Eastern Europe and Transitology, OeIIP, AP 19, July 1998.
- Nowotny*, Thomas (1994). Ist Demokratie natürlich; zur Entwicklung der Reformstaaten Zentral und Osteuropas, in: *Österreichische Zeitschrift für Politikwissenschaft*, 23(4), 447–460.
- Plasser*, Fritz/Andreas *Przibersky* (Hg.) (1998). *Political Culture in East Central Europe*, Avebury.
- Putnam*, Robert (1993) *Making Democracy Work*, Princeton.
- Raiser*, Martin/Christian *Härpfer*/Thomas *Nowotny*/Claire *Wallace* (2001). *Social Capital in Transition: a First Look at the Evidence*, EBRD, Working Paper 62.
- Rivera*, Sharon (1996). Historical Cleavages as Transition Mode, in: *Party Politics* 2(2) 1996, 177–208.
- Rose*, Richard/William *Mishler* (1996). Political Patience in Regime Transformation- a Comparative Analysis of Post-Communist Citizens, *Studies in Public Policy*, 274.
- Rose*, Richard (1997). Measuring Social Capital in Post Communist Societies, IBRD paper Nov 1997, First Report to the World Bank Social Capital Group.
- Sachs*, Jeffrey (1997). The Transition Economies, paper for the symposium in memory of Michael Bruno, Jerusalem, November 1997.
- Schmitter*, Phillip/Terry Lynn *Karl* (1994). The Conceptual Travels of Transitologists and Consolidationists: How Far East Should They Go? In: *Slavic Review*, 53, 1994, 173–185.
- Shleifer*, Andrei (1997). Government in Transition, in: *European Economic Review*, 41, 385–410.
- Stiglitz*, Joseph (1999) Whither Reform; Ten Years of Transition, 1999, IBRD Annual Conference on Development Economics.
- Stiglitz*, Joseph (1999). Some Lessons from the East Asian Miracle, *World Bank Research Observer*, 212, 151–185.
- Zakaria*, Fareed (1997). The Rise of Illiberal Democracies, in: *Foreign Affairs*, Nov/Dec 1997, 22–43.

AUTHOR

Thomas Nowotny, Dozent at the Institut für Politikwissenschaft, Wien. Formerly Austrian diplomat. Present position: Finanzierungsgarantiegesellschaft, Wien. Previously: senior political counsellor at the European Bank for Reconstruction and Development – EBRD, London. Earlier still: counsellor at the Centre for Co-Operation with Economies in Transition at the OECD, Paris. Numerous articles in US and Austrian magazines, two major books.

Adresse: Thomas Nowotny, Gusshausstrasse 10/23, 1040 Wien. Email: t.nowotny@fgg.at